

MANAGEMENT DISCUSSION AND ANALYSIS

Business Review

The Group enjoyed significant growth in profit for the six months ended 30 June 2005 compared to the corresponding period in 2004. Net profit attributable to shareholders amounted to HK\$334.4 million, compared to net profit attributable to shareholders of HK\$104.3 million (as restated) for the corresponding period in 2004, representing an increase of 220.6%. Basic earnings per share was HK7.2 cents for the six months ended 30 June 2005 compared to basic earnings per share of HK3.1 cents (as restated) for the corresponding period in 2004.

The Group's primary business is the manufacture of steel plates. The Group conducts its steel production business through its wholly-owned subsidiary, Qinhuangdao Shougang Plate Mill Co., Ltd ("Qinhuangdao Plate Mill") and an associated company (as at 30 June 2005), Qinhuangdao Shouqin Metal Materials Co., Ltd. ("Shouqin"). In August 2005, the Group entered into conditional agreements for the purchase of an additional 45% interest in Shouqin, and, upon completion, the Group will consolidate Shouqin's results into that of the Group. For more information concerning the acquisition of additional interest in Shouqin, see "Impact of Shouqin Acquisition and Consolidation" below.

Six Months Ended 30 June 2005 compared to Six Months Ended 30 June 2004

Turnover

Turnover increased from HK\$1,390.4 million for the period in 2004 to HK\$2,539.6 million for the period in 2005, or 82.7%. Turnover increased primarily because of an increase in sales volume as well as average selling prices of our steel products.

Turnover in the steel manufacturing segment increased from HK\$1,038.2 million for the period in 2004 to HK\$1,640.6 million for the period in 2005, or 58.0%, primarily as a result of increased production capacity at the Qinhuangdao Plate Mill and a rise in steel prices. Steel prices rose primarily as a result of the favourable environment for steel products in China due to the growth in the Chinese economy. Our average price per metric tonne was HK\$3,748 (net of tax) for the period in 2004 while the average price per metric tonne for the period in 2005 was HK\$4,187 (net of tax). Our production capacity rose primarily as a result of increased utilisation of our facilities from approximately 242,500 metric tonnes for the period in 2004 to approximately 348,000 metric tonnes for the period in 2005, an increase of or 43.5%.

Turnover in the shipping segment decreased from HK\$140.4 million for the period in 2004 to HK\$121.3 million for the period in 2005, or 13.6%, primary as a result of a market decline in freight rates in the time charter business.



MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Six Months Ended 30 June 2005 compared to Six Months Ended 30 June 2004 (continued)

Turnover (continued)

Turnover in the power generation segment increased slightly from HK\$188.9 million for the period in 2004 to HK\$200.6 million for the period in 2005, or 6.2%. The Group sold 554 million kwh of electricity for the period in 2004 while it sold 577 million kwh of electricity for the period in 2005, an increase of 4.2%, while the price of electricity remained generally stable.

Turnover in other segments increased from HK\$22.9 million for the period in 2004 to HK\$777.7 million for the period in 2005, or 3,296.1%, primarily as a result of the resumption of our steel trading activities during the period in 2005 in response to favourable market conditions. The Group does not anticipate steel trading to become increasingly important to the Group's earnings.

Cost of sales

Cost of sales increased from HK\$1,133.8 million for the period in 2004 to HK\$2,195.3 million for the period in 2005, or 93.6%. Cost of sales increased far more than turnover, primarily as a result of the resumption of the steel trading business, as well as increases in iron ore prices, during the period.

Other operating income

Other operating income increased from HK\$6.4 million for the period in 2004 to HK\$15.1 million for the period in 2005, or 135.9%, primarily as a result of the increase in sale of scrap materials and provision of services.

Administrative expenses

Administrative expenses increased from HK\$71.1 million for the period in 2004 to HK\$77.5 million for the period in 2005, or 9.0%, primarily as a result of higher administrative expenses associated with the Group's expansion in steel manufacturing.

Other operating expenses

Other operating expenses decreased from HK\$15.9 million for the period in 2004 to HK\$1.6 million for the period in 2005, or 89.9%, primarily as a result of the decrease in impairment loss recognized in respect of investment securities from HK\$11.5 million for the period in 2004 to nil for the period in 2005.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Six Months Ended 30 June 2005 compared to Six Months Ended 30 June 2004 (continued)

Interest expenses

Interest expenses increased from HK\$6.6 million for the period in 2004 to HK\$7.9 million for the period in 2005, or 19.7%, primarily as a result of an increase in the Group's bank borrowings in line with its expansion in steel manufacturing.

Loss on deemed disposal of a partial interest in an associate

Loss on deemed disposal of a partial interest in an associate decreased from HK\$0.5 million for the period in 2004 to nil for the period in 2005.

Income tax expense

Income tax expense increased from HK\$13.6 million for the period in 2004 to HK\$16.8 million for the period in 2005, or 23.5%, primarily as a result of an increase in the Group's profit from operations, which increased the amount of tax obligations.

Manufacture and sale of steel products

The Group operates in this business segment through Qinhuangdao Plate Mill and Shouqin.

Qinhuangdao Plate Mill recorded a turnover of HK\$1,640.6 million for the six months ended 30 June 2005, an increase of HK\$602.4 million when compared with the corresponding period last year. The increase in turnover was due to good market conditions which resulted in growth in sales volume and increase in selling price. Qinhuangdao Plate Mill sold approximately 348,000 metric tonnes of its steel plates main product in this interim period at average selling price (net of tax) of HK\$4,187 per metric tonne, in contrast with approximately 242,500 metric tonnes sold at average selling price (net of tax) of HK\$3,748 per metric tonne in 2004. This resulted in an increase in gross profit of HK\$97.9 million, from HK\$138.0 million in 2004 to HK\$235.9 million in 2005. During the period under review, Qinhuangdao Plate Mill continued to implement successful cost control measures to maintain its expenses at reasonable level. In addition, the further acquisition of interests in Qinhuangdao Plate Mill by the Group in the second half year of 2004 has further enhanced the Group's share of profit in Qinhuangdao Plate Mill in the current period. For the six months ended 30 June 2005, net profit contributed by Qinhuangdao Plate Mill to the Group (excluding the share of result from Shouqin, which will be described below) amounted to HK\$174.7 million, representing an impressive increase in profit of HK\$133.5 million over that for last interim period.



MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Six Months Ended 30 June 2005 compared to Six Months Ended 30 June 2004 (continued)

Manufacture and sale of steel products (continued)

During the period under review, the Group has held an effective interest of 51% in Shouqin (27% held by the Group directly and 24% held by Qinhuangdao Plate Mill). Shouqin delivered an excellent result for the six months ended 30 June 2005 and contributed a net profit of HK\$88.8 million to the Group (2004: Group's share of its loss amounted to HK\$3.7 million). As it is expected that Shouqin will continue to generate satisfactory profits in future, the Group has entered into agreements to acquire further interests of 45% in Shouqin subsequent to the balance sheet date, details of which were disclosed in the Company's announcement and a circular will be issued to the shareholders in due course.

Shipping operations

Shougang Concord Shipping Holdings Limited and its subsidiaries ("Shougang Shipping Group") reported a net operating profit of HK\$46.7 million for the six months ended 30 June 2005, representing a decline in profit of HK\$12.7 million from a net operating profit of HK\$59.4 million for the corresponding period last year. The main reason for decrease in profit was due to the adjustment of freight rates in the market, which caused the operating profit of its time charter business to decline from HK\$61.9 million in 2004 to HK\$45.0 million in 2005. Its floating crane business recorded a moderate operating profit of HK\$1.0 million in the current period, which was similar to that of last interim period. During the period under review, Shougang Shipping Group managed to maintain its expenses at minimum level which, together with the reversal of bad debt provision of HK\$4.4 million, has effectively reduced the impact on performance caused by weaker freight rates.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)**Six Months Ended 30 June 2005 compared to Six Months Ended 30 June 2004 (continued)***Electricity generation*

Beijing Shougang Firstlevel Power Co., Ltd. ("Beijing Power Plant") reported a turnover of HK\$200.6 million for this interim period, representing an increase of HK\$11.7 million from HK\$188.9 million for last interim period. Beijing Power Plant sold approximately 577 million kwh of electricity and generated a sales revenue of HK\$170.5 million for the six months ended 30 June 2005, in contrast with selling 554 million kwh of electricity with a sales revenue of HK\$161.3 million for the same period last year. Turnover of steam and hot water grew marginally during this interim period. Sales revenue of steam increased by HK\$1.0 million to HK\$16.4 million, while sales revenue of hot water grew by HK\$1.5 million to HK\$13.7 million. The increase in total turnover of HK\$11.7 million was however confronted with rising material costs. During this interim period, costs of sales increased by HK\$15.3 million to HK\$153.3 million, resulting in a decline of gross profit of HK\$3.6 million to HK\$47.3 million. After accounted for total expenses of HK\$18.8 million (2004: HK\$20.0 million), tax charge of HK\$3.9 million (2004: Nil) and minority interests, the Group's share of net profit of Beijing Power Plant for the six months ended 30 June 2005 amounted to HK\$12.5 million, which showed a moderate decline of HK\$1.5 million as compared to HK\$14.0 million shared by the Group for last interim period.

Manufacture of steel cord for radial tyres; processing and trading of copper and brass products

Shougang Concord Century Holdings Limited and its subsidiaries ("Shougang Century Group") reported a turnover of HK\$269.5 million for this interim period, representing a growth of HK\$77.5 million from HK\$192.0 million for the same period last year. During this interim period, turnover for its core business of manufacture of steel cord for radial tyres grew by 72.9% to HK\$194.4 million whilst sales of its another core business, processing and trading of copper and brass products, declined by 6.0% to HK\$74.5 million.

Despite the growth in turnover, the rapid rising costs of raw material and keen competition in product selling price had caused pressure on profitability, particularly for the steel cord business. As a result, gross profit dropped by HK\$8.2 million, from HK\$61.1 million (as restated) in 2004 to HK\$52.9 million in 2005. During this interim period, Shougang Century Group was successful to maintain its expenditure to grow only moderately despite its strong growth in sales. On the whole, Shougang Century Group's net profit attributable to shareholders amounted to HK\$36.1 million for the six months ended 30 June 2005, a decline of HK\$8.5 million from HK\$44.6 million (as restated) for the last interim period. Accordingly, the Group's share of its net profit has decreased by HK\$2.3 million to HK\$9.9 million in this interim period.



MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Six Months Ended 30 June 2005 compared to Six Months Ended 30 June 2004 (continued)

Trading of steel products; manufacture and installation of kitchen and laundry equipment

Shougang Concord Steel Holdings Limited and its subsidiaries ("Shougang Steel Group") achieved a substantial growth in turnover and earnings for the six months ended 30 June 2005, which was mainly attributable to the steel trading business. During this interim period, Shougang Steel Group resumed its activities in steel trading which recorded a turnover of HK\$748.7 million; turnover of the kitchen and laundry equipment business also grew from HK\$21.7 million to HK\$27.9 million. Hence, total turnover recorded a substantial growth of HK\$754.7 million, from HK\$22.3 million in 2004 to HK\$777.0 million in 2005.

The captioned increase in turnover caused gross profit to improve by HK\$10.7 million to HK\$14.9 million, of which the steel trading business accounted for HK\$11.2 million and the kitchen and laundry business accounted for HK\$3.4 million, respectively. During the period under review, total expenses (net of other incomes) fell by HK\$0.6 million to HK\$3.3 million as the management continued to tighten cost measures and to streamline operations. Consequently, Shougang Steel Group achieved a net profit of HK\$11.6 million for the current period, representing a strong growth of HK\$11.3 million as compared to the net profit of HK\$0.3 million as recorded for the corresponding period last year.

Liquidity and financial resources

The Group normally financed its operations by cash generated from its business activities and banking facilities provided by its bankers. For the six months ended 30 June 2005, the Company obtained extra source of funding in the sum of HK\$3.3 million by the issue of 9.0 million new ordinary shares of the Company to certain employees upon their exercise of share options of the Company.

As at 30 June 2005, the Group had banking facilities of HK\$205.5 million and RMB375.0 million with banking institutions in Hong Kong and in the PRC, respectively. These banking facilities were utilised to the extent of HK\$46.2 million and RMB275.0 million respectively as at 30 June 2005. The banking facilities in Hong Kong were secured by certain properties of HK\$13.4 million and corporate guarantees from the Company of HK\$206.3 million, and those in the PRC were secured by certain plant and machinery with an aggregate net book value of RMB189.0 million and corporate guarantees from Shougang Corporation of RMB175.0 million.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Liquidity and financial resources (continued)

The Group's current assets as at the current period end amounted to HK\$1,186.2 million, an increase of HK\$31.6 million from last year end's level of HK\$1,154.6 million. In contrast, the Group's current liabilities decreased from HK\$696.6 million to HK\$619.1 million, representing a decrease of HK\$77.5 million during the period. Hence, the Group's working capital position showed an improvement, where net current assets grew by HK\$109.1 million to HK\$567.1 million as at 30 June 2005. The Group's current ratio, defined as current assets divided by current liabilities, accordingly increased to 1.92 times as at 30 June 2005 from 1.66 times as at last year end. The Group's gearing ratio which is defined as total debts divided by equity, reduced to 0.32 times as at 30 June 2005 as compared to 0.51 times as at 31 December 2004. During the current period, the Group had no significant exposure to foreign exchange fluctuations and therefore no material hedging arrangements were made in this aspect.

Capital Structure

At the beginning of the current period, the issued share capital of the Company was HK\$927.5 million, represented by 4,637,251,215 ordinary shares of HK\$0.20 each. During the current period, certain employees of the Group exercised the granted options, pursuant to which 3 million and 6 million new ordinary shares were issued at exercise prices of HK\$0.295 and HK\$0.41 per share, respectively. Consequently, the issued share capital of the Company was increased by HK\$1.8 million (represented by 9,000,000 ordinary shares) to HK\$929.3 million (represented by 4,646,251,215 ordinary shares).

Subsequent to the balance sheet date, certain employees of the Group exercised the granted options, pursuant to which 0.4 million and 15.75 million new ordinary shares were issued at exercise prices of HK\$0.295 and HK\$0.41 per share, respectively. Consequently, the issued share capital of the Company was increased by HK\$3.2 million (represented by 16,146,000 ordinary shares) to HK\$932.5 million (represented by 4,662,397,215 ordinary shares). In addition, a wholly-owned subsidiary of the Company entered into agreements with third parties in August 2005 to acquire a total of 45% interest in Shouqin for a consideration of RMB467.5 million (equivalent to HK\$448.2 million). According to the terms of the agreements, 40% of the said consideration which amounted to HK\$179.3 million, will be satisfied by the issue of 271,659,999 new ordinary shares of the Company at HK\$0.66 per share. After completion of the said acquisition, the issued share capital of the Company will be increased to HK\$986.8 million, represented by 4,934,057,214 ordinary shares.



MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Capital Structure (continued)

As described in our circular to the shareholders dated 20 May 2005 and the special resolution of which was duly approved by the shareholders at the extraordinary general meeting held on 13 June 2005, the Company sought to cancel the share premium account and the capital reserve account (the "Cancellation") in writing off its accumulated losses, to the extent permitted by the High Court of Hong Kong (the "High Court"). The High Court made an order confirming the Cancellation on 1 September 2005, which was duly registered by the Registrar of Companies in Hong Kong on 1 September 2005. Accordingly, the Cancellation became effective on the same day. As a result, the share premium account of the Company has been reduced by HK\$1,412,855,741.98 and the capital reserve account of the Company has been reduced by HK\$1,800,000,000.00. An amount of HK\$2,920,201,029.67 arising from such reduction has been applied towards the elimination of the accumulated losses of the Company and the remaining balance of HK\$292,654,712.31 has been credited to the Company's special capital reserve account. Against this background, the Company is now in a position to consider distributing dividends in future.

Contingent Liabilities

The Company has provided guarantees for the due and punctual performance and observance by a wholly-owned subsidiary of the Company of each and every of its obligations, undertakings and liabilities under two time charter hires, through which the Group leases certain of its vessels. The time charter hires commenced on 26 September 1997 with a lease period of 15 years, with the option to terminate two months prior to expiration or extend two months after expiration. The daily rates of the time charter hires increase by US\$250 every half year until December 2007, and thereafter the daily rates will increase by US\$125 every half year.

Employees and Remuneration Policies

The Group had approximately 2,000 employees as at 30 June 2005.

The remuneration policies of the Group are to ensure the fairness and competitiveness of total remuneration in order to motivate and retain existing employees as well as to attract potential employees. Remuneration packages are structured in a way that takes into account local practices under various geographical locations in which the Group operates.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Employees and Remuneration Policies (continued)

The remuneration packages of Hong Kong employees include salary payments, discretionary bonuses on a performance basis, medical subsidies and a hospitalisation scheme. All of the subsidiaries of the Group located in Hong Kong provide pension schemes for their Hong Kong employees as part of their staff benefits. The remuneration packages of certain employees in the PRC include salary payments, discretionary bonuses on a performance basis, medical subsidies and a welfare fund as part of their staff benefits.

Impact of Shouqin Acquisition and Consolidation

Currently, Shouqin's operating results are recognized as the share of results of an associate pursuant to generally accepted accounting principles in Hong Kong. However, following the Group's acquisition of another 45% interest in Shouqin, which was announced on 11 August 2005 and which is expected to take effect upon the conclusion of a shareholders' vote in an extraordinary shareholders' meeting, Shouqin's operating results will be consolidated into the Group's financial statements. The consolidation of Shouqin's operating results, or the Shouqin consolidation, will have a substantial impact on the Group's financial condition and results of operations.

Details of the acquisition are contained in the Company's announcement dated 11 August 2005. Further details will also be set out in the Company's circular, which will be sent to shareholders in due course. Shougang Holding, which holds approximately 59% of the Shares of the Company, has indicated that it will vote in favour of the acquisitions at the extraordinary shareholders' meeting.

Set forth below is a summary of the expected impact of the Shouqin consolidation.

Production capacity

After Phase II of Shouqin reaches full production capacity, which is anticipated by 2008, the Group expects its production capacity for steel plates to increase from the current level of approximately 800,000 metric tonnes per year to 2.6 million metric tonnes per year. Without Shouqin's consolidation, much of the added production capacity would be treated as that of an associate. For a discussion of Shouqin's expansion plans, see "Shouqin Expansion" below.



MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Impact of Shouqin Acquisition and Consolidation (continued)

Turnover

Shouqin is expected to increase substantially its production volume in 2005. Moreover, with the completion of Phase II in 2006, the Group's total production of medium and thick steel plates will increase significantly. As Shouqin after Phase II will be capable of producing steel plates with widths slightly exceeding 4.0 meters, which management believes will command higher prices than those of the steel plates that the Group currently produces, the Group expects that the average price of its products will increase, further contributing to the rise in turnover.

Cost of sales

Raw materials account for the largest proportion of the Group's cost of sales. After the Shouqin consolidation, slabs will cease to become the major raw material for the Group's business, as the slabs sourced from Shouqin will no longer be treated as an external cost to the Group. However, Shouqin's primary raw material, iron ore, will constitute the largest proportion of raw materials. The impact of this vertical integration will be an increase in the Group's gross profit margins.

Income tax

As a newly established enterprise, Shouqin enjoys a tax treatment that is more favourable than that enjoyed by the Qinhuangdao Plate Mill. With the Shouqin consolidation, the Group's effective tax rate is likely to be reduced, which is likely to have a positive effect on profit attributable to shareholders. Shouqin is expected to enjoy preferential tax treatment for five years.

Debt

Shouqin has considerably higher levels of debt than the rest of the Group. As of 30 June 2005, Shouqin's debt to equity ratio was 2.44. Upon Shouqin's consolidation, the Group's general level of indebtedness will be significantly increased.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)**Impact of Shouqin Acquisition and Consolidation (continued)**

Set forth below is certain information on the impact of Shouqin's consolidation. The historical financial data for the six months ended 31 December 2004 reflect Shouqin's performance since its inception, while the pro forma financial data take into account the proposed acquisition of an additional 45% interest in Shouqin.

	Six months ended 31 December 2004	Six months ended 30 June 2005	Six months ended 31 December 2004	Six months ended 30 June 2005
	(Standalone)		(Pro Forma)	
	<i>(HK\$ in thousands)</i>			
Turnover	1,378,198	1,652,111	2,133,243	2,963,839
Cost of Sales	(1,193,614)	(1,345,384)	(1,686,268)	(2,312,774)
Gross profit	184,584	306,727	446,975	651,065
Other operating income	4,766	713	26,475	15,833
Distribution costs	(2,931)	(15,908)	(8,933)	(26,150)
Administrative expenses	(44,715)	(70,004)	(143,937)	(147,489)
Other operating expenses	(5,006)	(43)	(30,105)	(1,621)
PROFIT FROM OPERATIONS	136,698	221,485	290,475	491,638
Interest expenses	(36,320)	(47,451)	(42,569)	(55,351)
Share of results of associates	-	-	6,202	9,912
Gain on disposal of an associate	-	-	-	4,355
Loss on deemed disposal of a partial interest in an associate	-	-	(336)	-
PROFIT BEFORE TAXATION	100,378	174,034	253,772	450,554
Income tax expenses	(14,983)	-	(2,832)	(16,777)
PROFIT FOR THE PERIOD	85,395	174,034	250,940	433,777
ATTRIBUTABLE TO:				
Equity holders of parent	85,395	174,034	207,720	412,700
Minority interests	-	-	43,220	21,077
	85,395	174,034	250,940	433,777
EBITDA	183,960	272,314	371,451	568,262



MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Impact of Shouqin Acquisition and Consolidation (continued)

	As at 31 December 2004	As at 30 June 2005	As at 31 December 2004	As at 30 June 2005
	(Standalone)		(Pro Forma)	
<i>(HK\$ in thousands)</i>				
NON-CURRENT ASSETS				
Investment properties	–	–	17,023	17,016
Deferred tax assets	1,185	1,183	1,185	1,183
Property, plant and equipment	1,874,654	2,282,389	2,768,270	3,026,646
Deposit for property, plant and equipment	94,747	378,106	94,747	378,106
Prepaid lease rentals	76,894	80,123	–	169,300
Intangible assets	–	–	1,638	1,247
Goodwill	–	–	492,075	492,075
Negative goodwill	–	–	(3,710)	–
Interests in associates	–	–	179,650	182,998
	<u>2,047,480</u>	<u>2,741,801</u>	<u>3,550,878</u>	<u>4,268,571</u>
CURRENT ASSETS				
Amounts due from customers for contract work	–	–	9,914	4,721
Inventories	207,367	360,901	488,626	643,931
Trade and bill receivables	45,271	8,773	178,540	212,706
Prepayments, deposits and other receivables	29,673	58,205	100,734	116,171
Prepaid lease rentals	1,617	1,709	–	6,167
Tax recoverable	–	–	2,336	1,634
Amounts due from related companies	22,773	154,050	173,086	359,460
Amounts due from associates	–	–	14,914	–
Amount due from a minority shareholder of a subsidiary	–	–	2,835	2,828
Restricted Deposits	155,506	245,230	155,506	245,230
Bank balances and cash	176,868	227,187	375,971	372,601
	<u>639,075</u>	<u>1,056,055</u>	<u>1,502,462</u>	<u>1,965,449</u>

MANAGEMENT DISCUSSION AND ANALYSIS (continued)**Impact of Shouqin Acquisition and Consolidation (continued)**

	As at 31 December 2004	As at 30 June 2005	As at 31 December 2004	As at 30 June 2005
	(Standalone)		(Pro Forma)	
	<i>(HK\$ in thousands)</i>			
CURRENT LIABILITIES				
Amounts due to customers for contract work	–	–	647	544
Trade and bill payables	81,442	174,965	124,022	218,537
Other payables and accrued liabilities	122,914	153,985	442,926	363,555
Tax payable	13,124	13,108	13,338	15,789
Amounts due to related companies	299,833	579,344	313,909	623,661
Amounts due to a fellow subsidiary	–	–	–	5,550
Loan from ultimate holding company	246,269	312,724	246,269	312,724
Obligation under a finance lease	–	–	534	534
Bank borrowings	338,473	807,588	640,298	1,112,054
Provision for a compensation claim	–	–	707	–
	<u>1,102,055</u>	<u>2,041,714</u>	<u>1,782,650</u>	<u>2,652,948</u>
NET CURRENT LIABILITIES	<u>(462,980)</u>	<u>(985,659)</u>	<u>(280,188)</u>	<u>(687,499)</u>
TOTAL ASSETS LESS CURRENT LIABILITIES	<u>1,584,500</u>	<u>1,756,142</u>	<u>3,270,690</u>	<u>3,581,072</u>



MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Impact of Shouqin Acquisition and Consolidation (continued)

	As at 31 December 2004	As at 30 June 2005	As at 31 December 2004	As at 30 June 2005
	(Standalone)		(Pro Forma)	
<i>(HK\$ in thousands)</i>				
NON-CURRENT LIABILITIES				
Obligation under a finance lease	-	-	801	534
Deferred tax	-	-	26,167	26,510
Bank borrowings	1,012,599	1,011,363	1,012,599	1,011,363
Loan from a fellow subsidiary	-	-	123,904	-
	<u>1,012,599</u>	<u>1,011,363</u>	<u>1,163,471</u>	<u>1,038,407</u>
	<u>571,901</u>	<u>744,779</u>	<u>2,107,219</u>	<u>2,542,665</u>
CAPITAL AND RESERVES				
Share capital	518,868	518,868	981,782	983,582
Reserves	53,033	225,911	906,294	1,319,385
Equity attributable to equity holders of the parent	571,901	744,779	1,888,076	2,302,967
Minority interest	-	-	219,143	239,698
	<u>571,901</u>	<u>744,779</u>	<u>2,107,219</u>	<u>2,542,665</u>

MANAGEMENT DISCUSSION AND ANALYSIS (continued)**Impact of Shouqin Acquisition and Consolidation (continued)**

Set forth below is the standalone cashflow statement for Shouqin for the six months ended 30 June 2005.

	Six months ended 30 June 2005 HK\$'000
Net cash from operating activities	358,408
Net cash used in investing activities	(844,372)
Net cash from financing activities	536,283
	<hr/>
Net increase in cash and cash equivalents	50,319
Cash and cash equivalents at beginning of the period	176,868
	<hr/>
Cash and cash equivalents at end of the period	227,187
	<hr/> <hr/>
Represented by:	
Bank balances and cash	227,187
Bank overdrafts	–
	<hr/>
	227,187
	<hr/> <hr/>

Between 30 June and 31 August of this year, the Group had entered into bank facilities amounting to approximately RMB400 million, out of which RMB200 million had been drawn down, in connection with the funding for Shouqin Phase II.

Shouqin Expansion

The Group intends to become a major producer of medium and thick steel plates with maximum widths slightly exceeding 4.0 meters, which the Group believes to be a niche market. In order to achieve this goal, construction of Phase I of Shouqin began in 2003, while commercial production commenced in June 2004.

The Group commenced Phase II of Shouqin's expansion in 2004 and expects to complete Phase II by the end of 2006, at an estimated total cost of RMB4 billion. The Group expects its production capacity for steel plates to increase from the current level of approximately 800,000 metric tonnes per year to 2.5 million metric tonnes per year in 2007 and 2.6 million metric tonnes per year in 2008.



MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Shouqin Expansion (continued)

The following table sets forth information regarding the Group's planned expenditures for the next two years:

	For the year ended December 31,	
	2005	2006
	<i>(HK\$ in millions)</i>	
Shouqin expansion	3,189.6	848.0
Total	3,189.6	848.0

Phase II of Shouqin consists of several major components: raw materials and sintering, iron-making, steel-making, and steel-rolling.

Raw materials and sintering

The Group plans to expand the capacity of its consolidated storage silo to accommodate increased production capacity, and build another sintering machine of 180 square meters. Much of the silo has been completed and testing may begin as early as November 2005. The sintering machine is at the installation stage. The Group budgeted approximately RMB207.5 million for this portion of the expansion, of which approximately RMB97.9 million had been expended by the end of June 2005.

Iron-making

The Group plans to build a blast furnace of 1,780 cubic meters for making iron. The Group budgeted approximately RMB630.6 million for this portion of the expansion, of which approximately RMB291.1 million had been expended by the end of June 2005.

Steel-making

The Group plans to build a 100-ton converter, a continuous casting machine for medium and thick steel plates of greater width, add a new finery furnace and vacuum furnace for the vacuum-treatment of molten steel. The Group budgeted approximately RMB742.3 million for this portion of the expansion, of which approximately RMB196.2 million had been expended by the end of June 2005.

MANAGEMENT DISCUSSION AND ANALYSIS (continued)

Shouqin Expansion (continued)

Steel rolling

The Group plans to build two furnaces, a high-pressure descaling system that could withstand pressure of 20 MPa, and a rolling machine, manufactured by the SMS company, used for rolling 4.0-meter width steel plates. The Group budgeted approximately RMB2,017.1 million for this portion of the expansion, of which approximately RMB279.0 million had been expended by the end of June 2005.

Prospects

The strong performance of the Group for the first half of 2005 confirms that the Group has taken a correct strategic direction towards strengthening its core business of steel manufacturing. The Group's further investments in the said business segment subsequent to the balance sheet date will provide further momentum to drive earnings to a higher level.

With the surge of the economy in the PRC in recent years, more business opportunities should be available for the Group. The Group will try its best efforts to identify new investments with long-term growth potentials which can also generate stable incomes so as to maximize returns. Barring unforeseen circumstances, the Group is confident that financial result for the whole year of 2005 will continue to be impressive.

INTERIM DIVIDEND

The Board did not declare an interim dividend for the six months ended 30 June 2005 (2004: Nil).

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's listed securities (whether on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") or otherwise) during the period under review.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

The directors of the Company who held office at 30 June 2005 had the following interests in the underlying shares of the Company and its associated corporation (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as at 30 June 2005 as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules"):



DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (continued)

(a) Long positions in underlying shares of the Company attached to the share options granted by the Company

Name of director	Options to subscribe for shares of the Company			Date of grant	Exercise period	Exercise price per share	Capacity in which interests are held	Interests as to % to the issued share capital as at 30.6.2005
	At the beginning of the period	Exercised during the period	At the end of the period					
Wang Qinghai	22,950,000	-	22,950,000	23.8.2002	23.8.2002 – 22.8.2012	HK\$0.295	Beneficial owner	0.49%
Cao Zhong	22,950,000	-	22,950,000	23.8.2002	23.8.2002 – 22.8.2012	HK\$0.295	Beneficial owner	
	91,820,000	-	91,820,000	18.11.2003	18.11.2003 – 17.11.2013	HK\$0.410	Beneficial owner	
	<u>114,770,000</u>	<u>-</u>	<u>114,770,000</u>					2.47%
Chen Zhouping	9,180,000	-	9,180,000	12.3.2003	12.3.2003 – 11.3.2013	HK\$0.280	Beneficial owner	
	57,388,000	-	57,388,000	18.11.2003	18.11.2003 – 17.11.2013	HK\$0.410	Beneficial owner	
	<u>66,568,000</u>	<u>-</u>	<u>66,568,000</u>					1.43%
Tsoi Wai Kwong*	21,746,000	(6,000,000)	15,746,000	18.11.2003	18.11.2003 – 17.11.2013	HK\$0.410	Beneficial owner	0.34%
Ip Tak Chuen, Edmond	8,000,000	-	8,000,000	23.8.2002	23.8.2002 – 22.8.2012	HK\$0.295	Beneficial owner	
	4,590,000	-	4,590,000	12.3.2003	12.3.2003 – 11.3.2013	HK\$0.280	Beneficial owner	
	<u>12,590,000</u>	<u>-</u>	<u>12,590,000</u>					0.27%
Leung Shun Sang, Tony	8,000,000	-	8,000,000	23.8.2002	23.8.2002 – 22.8.2012	HK\$0.295	Beneficial owner	
	4,590,000	-	4,590,000	12.3.2003	12.3.2003 – 11.3.2013	HK\$0.280	Beneficial owner	
	<u>12,590,000</u>	<u>-</u>	<u>12,590,000</u>					0.27%
Choy Hok Man, Constance	1,000,000	-	1,000,000	23.8.2002	23.8.2002 – 22.8.2012	HK\$0.295	Beneficial owner	0.02%
	<u>252,214,000</u>	<u>(6,000,000)</u>	<u>246,214,000</u>					

* Mr. Tsoi Wai Kwong resigned as a director of the Company on 16 August 2005.

The above share options are unlisted cash settled options granted pursuant to the Company's share option scheme adopted on 7 June 2002 (the "Scheme"). Upon exercise of the share options in accordance with the Scheme, ordinary shares of HK\$0.20 each in the share capital of the Company are issuable. The share options are personal to the respective directors. Further details of the share options are set out in the section headed "Share Options" below.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (continued)

(b) Long positions in underlying shares of an associated corporation, Shougang Concord Century Holdings Limited ("Shougang Century"), attached to the share options granted by Shougang Century

Name of director	Options to subscribe for shares of Shougang Century at the beginning and the end of the period	Date of grant	Exercise period	Exercise price per share	Capacity in which interests are held	Interests as to % to the issued share capital as at 30.6.2005
Cao Zhong	7,652,000	23.8.2002	23.8.2002 – 22.8.2012	HK\$0.295	Beneficial owner	
	57,350,000	2.10.2003	2.10.2003 – 1.10.2013	HK\$0.780	Beneficial owner	
	<u>65,002,000</u>					6.34%
Chen Zhouping	7,652,000	23.8.2002	23.8.2002 – 22.8.2012	HK\$0.295	Beneficial owner	0.75%
Luo Zhenyu	7,652,000	12.3.2003	12.3.2003 – 11.3.2013	HK\$0.325	Beneficial owner	0.75%
Leung Shun Sang, Tony	4,592,000	23.8.2002	23.8.2002 – 22.8.2012	HK\$0.295	Beneficial owner	
	3,060,000	12.3.2003	12.3.2003 – 11.3.2013	HK\$0.325	Beneficial owner	
	4,592,000	25.8.2003	25.8.2003 – 24.8.2013	HK\$0.740	Beneficial owner	
	<u>12,244,000</u>					1.19%
	<u>92,550,000</u>					

The above share options are unlisted cash settled options granted pursuant to the share option scheme of Shougang Century adopted on 7 June 2002. Upon exercise of the share options in accordance with the share option scheme of Shougang Century, ordinary shares of HK\$0.10 each in the share capital of Shougang Century are issuable. The share options are personal to the respective directors.

Save as disclosed above, as at 30 June 2005, none of the Company's directors, chief executives or their respective associates had any other personal, family, corporate and other interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.



DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (continued)

Other than those disclosed in this section and the section headed "Share Options" below, no right to subscribe for equity or debt securities of the Company has been granted by the Company to, nor have any such rights been exercised by, any directors or chief executives (including their spouses or children under 18 years of age) during the six months ended 30 June 2005.

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO

As at 30 June 2005, according to the register kept by the Company under Section 336 of the SFO, the following companies and persons had long positions of 5% or more in the shares or underlying shares of the Company which fell to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO:

Long positions in the shares and underlying shares of the Company

Name of shareholder	Capacity in which interests are held	Number of shares held in the Company	Interests as to % to the issued share capital as at 30.6.2005	Note(s)
Shougang Holding (Hong Kong) Limited ("Shougang HK")	Beneficial owner, Interests of controlled corporations	2,817,738,686	60.65%	1
Grand Invest International Limited ("Grand Invest")	Beneficial owner	868,340,765	18.69%	1
China Gate Investments Limited ("China Gate")	Beneficial owner	1,529,904,761	32.93%	1
Cheung Kong (Holdings) Limited ("Cheung Kong")	Interests of controlled corporations	455,401,955	9.80%	2, 3
Max Same Investment Limited ("Max Same")	Beneficial owner	423,054,586	9.11%	2
Li Ka-shing	Interests of controlled corporations, founder of discretionary trusts	455,401,955	9.80%	3

INTERESTS AND SHORT POSITIONS OF SHAREHOLDERS DISCLOSEABLE UNDER THE SFO (continued)

Long positions in the shares and underlying shares of the Company (continued)

Name of shareholder	Capacity in which interests are held	Number of shares held in the Company	Interests as to % to the issued share capital as at 30.6.2005	Note(s)
Li Ka-Shing Unity Trustee Company Limited ("TUT1")	Trustee	455,401,955	9.80%	3
Li Ka-Shing Unity Trustee Corporation Limited ("TDT1")	Trustee, beneficiary of a trust	455,401,955	9.80%	3
Li Ka-Shing Unity Trustcorp Limited ("TDT2")	Trustee, beneficiary of a trust	455,401,955	9.80%	3

Notes:

- Both Grand Invest and China Gate were wholly-owned subsidiaries of Shougang HK and their respective interests were included in the interests held by Shougang HK.
- Max Same was a wholly-owned subsidiary of Cheung Kong and its interest was included in the interests held by Cheung Kong.
- Li Ka-Shing Unity Holdings Limited ("Unity Holdco"), of which each of Mr. Li Ka-shing, Mr. Li Tzar Kuoi, Victor and Mr. Li Tzar Kai, Richard was interested in one-third of the entire issued share capital, owned the entire issued share capital of TUT1. TUT1 as trustee of The Li Ka-Shing Unity Trust ("UT1"), together with certain companies which TUT1 as trustee of UT1 was entitled to exercise or control the exercise of more than one-third of the voting power at their general meetings, held more than one-third of the issued share capital of Cheung Kong.

In addition, Unity Holdco also owned the entire issued share capital of TDT1 as trustee of The Li Ka-Shing Unity Discretionary Trust ("DT1") and TDT2 as trustee of another discretionary trust ("DT2"). Each of TDT1 and TDT2 held units in UT1.

By virtue of the SFO, each of Mr. Li Ka-shing, being the settlor and may being regarded as a founder of each of DT1 and DT2 for the purpose of the SFO, TUT1, TDT1 and TDT2 was deemed to be interested in the same block of shares in which Cheung Kong was interested under the SFO.

Save as disclosed above, as at 30 June 2005, the Company has not been notified of any other person (other than the directors and chief executives of the Company) who had an interest or short position in the shares and underlying shares of the Company which fell to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.